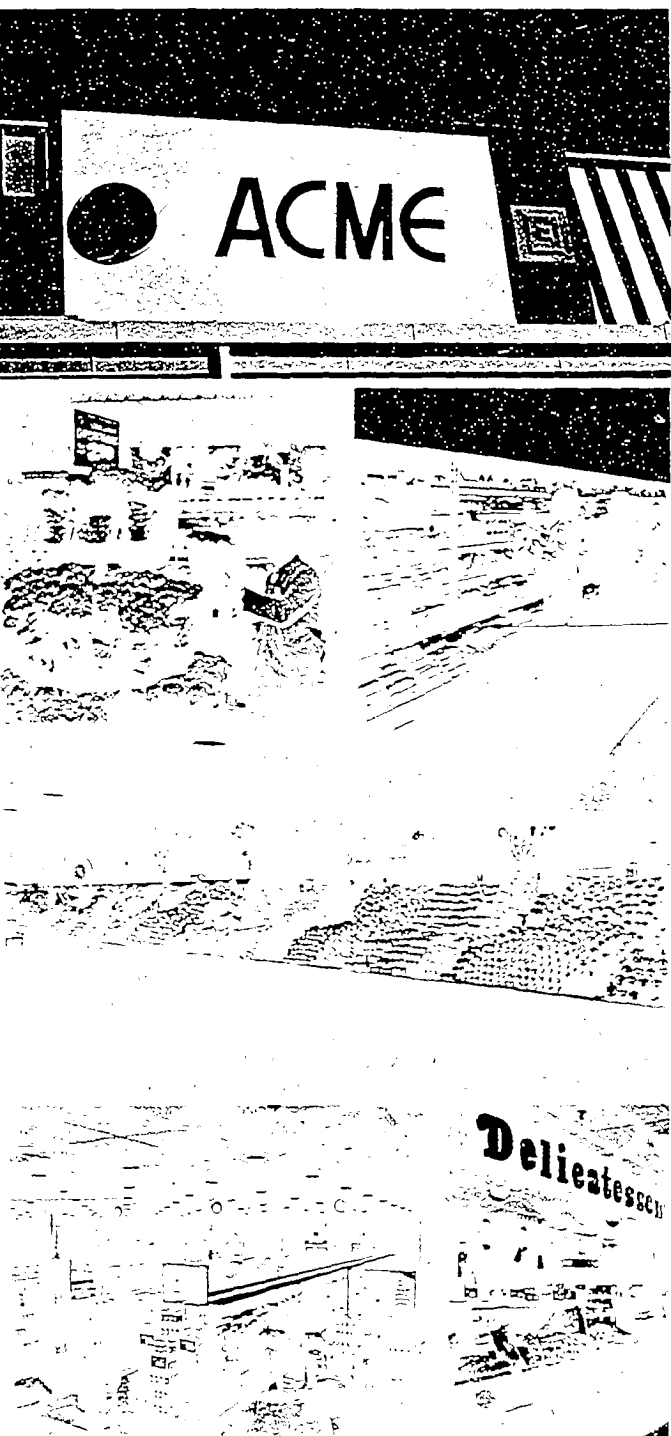


AMERICAN STORES COMPANY

Annual Report 1976

Year ended April 3, 1976



AMERICAN STORES COMPANY

WEST COAST

288 Food Stores
14 Drug and general
merchandise stores
33 Restaurants

EAST COAST

499 Food Stores
108 Drug and general
merchandise stores
14 Restaurants

SUPPORT FACILITIES

Baltimore, Md.	Food distribution center and bakery	Lancaster, Pa.	General merchandise distribution center
Buffalo, N.Y.	Food distribution center and bakery	Lincoln, Nebr.	Meat packing plant
Syracuse, N.Y.	Food distribution center	Milpitas, Calif.	Food distribution center
Fairwater, Wis.	Vegetable cannery	Northumberland, Pa.	Drug store distribution centers (2)
Greencastle, Pa.	Abattoir	Philadelphia, Pa.	Food distribution centers (3) and bakery
Hurlock, Md.	Cannery and food packaging plant	Pueblo, Colo.	Meat packing plant
Johnstown, Pa.	Food distribution center	South Kearny, N.J.	Food distribution center
La Habra, Calif.	Food distribution center, bakery, creamery, delicatessen and general merchandise distribution center	Wilkes-Barre, Pa.	Food distribution center and bakery

FINANCIAL HIGHLIGHTS

Fiscal years ended April 3, 1976 and March 29, 1975

	1976 (53 weeks)	1975 (52 weeks)	Change
Sales	\$3,207,248,000	\$2,734,710,000	+17.3%
Net Earnings	\$ 31,965,000	\$ 19,321,000*	+65.4%
Dividends Paid	\$ 8,373,000	\$ 6,264,000	+33.7%
Per Common Share Net Earnings	\$6.11	\$3.70*	+\$2.41
Dividends	\$1.60	\$1.20	+\$.40

*Reflects adoption of LIFO method of valuation of certain inventories

Per share figures have been adjusted for three-for-two stock split effective July 1, 1975

The annual meeting of shareholders will be held at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware on July 29, 1976 at 2 p.m.

AMERICAN STORES COMPANY is a holding company which through operating companies is engaged primarily in the retail food business.

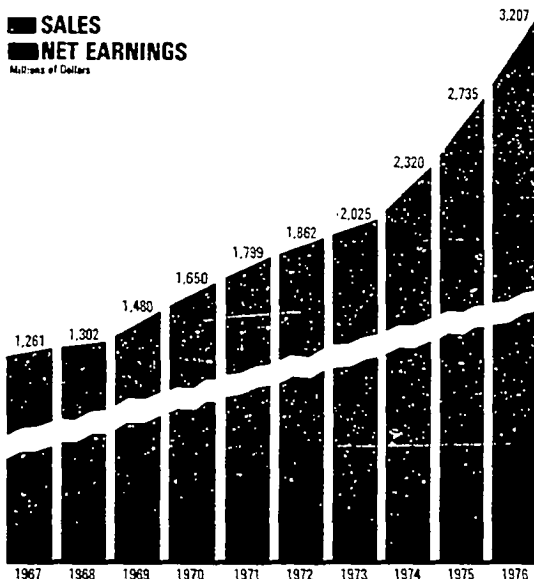
Food stores are located in the nine states indicated on the map on the facing page. Alpha Beta Company operates those on the West Coast under the name of Alpha Beta. In the seven eastern states Acme Markets, Inc. operates food stores mostly under the name Acme, while the rest carry the name Super Saver.

Rea and Derick, Incorporated is the eastern drug store operating company with stores in Pennsylvania and New York. An Alpha Beta Company subsidiary, Hy-Lo operates the California drug stores. The Alphy family restaurants in California are a part of the

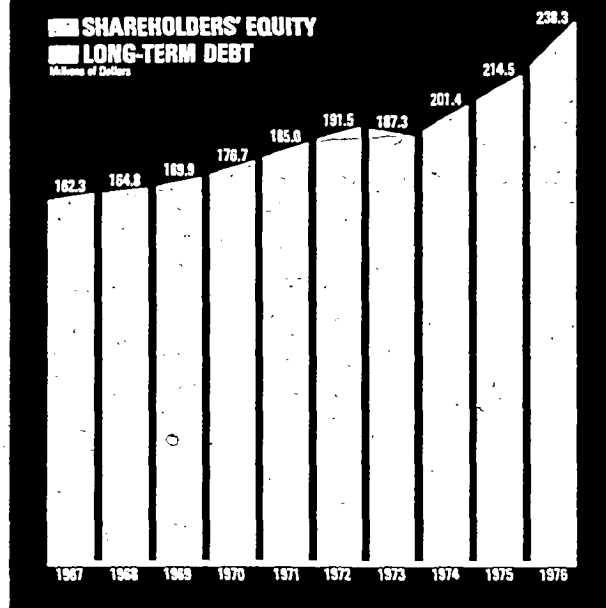
Alpha Beta Company. Other subsidiaries are Value Fair, operating general merchandise stores in California and Hardee Northern Inc. which has fast food restaurants in Pennsylvania, New Jersey and Delaware.

The operating companies are serving customers in two important population centers, one on each coast. The eastern marketing area shown on the map has a population of nearly 28 million excluding Metropolitan New York. On the West Coast the population of the trading area of Alpha Beta is roughly 23 million. Combined, the two geographic marketing areas have a population of approximately 24% of the total United States population.

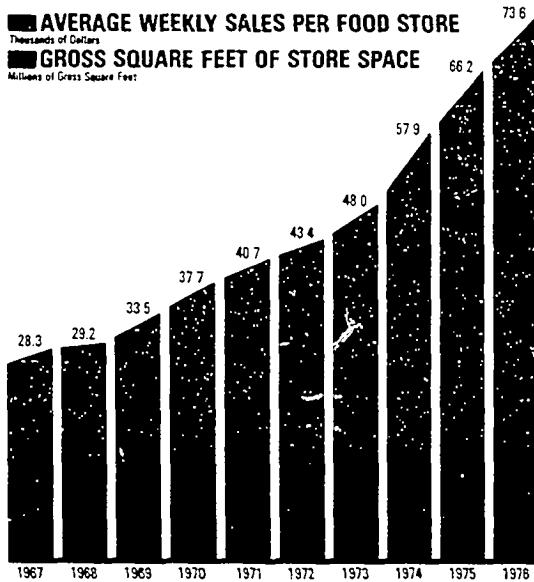
SALES
NET EARNINGS
Millions of Dollars



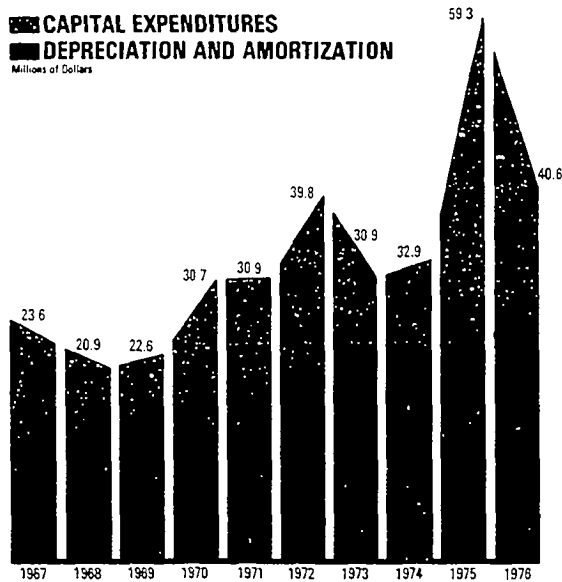
SHAREHOLDERS' EQUITY
LONG-TERM DEBT
Millions of Dollars



AVERAGE WEEKLY SALES PER FOOD STORE
Thousands of Dollars
GROSS SQUARE FEET OF STORE SPACE
Millions of Gross Square Feet



CAPITAL EXPENDITURES
DEPRECIATION AND AMORTIZATION
Millions of Dollars



REPORT TO SHAREHOLDERS

The fiscal year ended April 3, 1976 was the best year in the 85-year history of American Stores Company. Sales exceeded \$3 billion for the first time and reached a total of \$3,207 million, an increase over the prior year of 17%. Earnings, responding to the strong sales increase and to improved operations, climbed to \$31,965 million and showed a marked gain over the prior year's earnings of \$19,321 million. Earnings per share were \$6.11 compared to \$3.70 in the preceding year. Although the rate of earnings to average net worth advanced to 14%, it gives perspective to consider that, for each dollar of sales, earnings amounted to a little less than one penny. All of the above results were benefited by the 53 weeks in the current fiscal year.

Our results also were benefited by the improvement in the economy in our operating areas as the year progressed, and particularly by the relative stability of retail food prices. Favorable growing conditions created abundant supplies of most domestic agricultural products, which, combined with a moderation of inflationary pressures, held the rise in the retail food price index at year-end to 3.7%. This is the smallest annual rate of increase in this index in five years and was welcomed by consumers and the retail industry alike.

However, the greatest contributing factor to the progress of our Company in recent years is the growing strength in the management teams of the operating companies comprising American Stores Company. Competitive conditions in the retail industry have always been keen, and this past year was no exception. The delicate balance that is required in striving vigorously for increased volume and, at the same time, earning a satisfactory rate of profit, is the test of a merchandising organization. The record performance of fiscal '76 is evidence of the strengthening and seasoning of our management teams.

We see continuing opportunity for growth in our geographic areas. Consequently, our new-store program will be accelerated in the next few years, with the emphasis on food stores in the 30,000 to 40,000 square-foot range. We also intend to emphasize a program of enlarging and remodeling existing food stores in proven locations where potential for growth looks promising.

In the retail drug field, Rea and Derick continues to grow profitably, and plans call for the opening of 14 new stores under its management.

To help provide for the growing needs of our business, the Company is studying the possibility of seeking additional long-term financing so as to



John R. Park

better enable us to meet the opportunities for profitable growth which we foresee

In recognition of the improving results, the Board of Directors increased the quarterly dividend payable July 1, 1976 to 47½¢ per share from the 40¢ rate in effect previously. This is the fifth increase in the cash dividend rate in the period commencing January 1974. Also, the common stock was split on a three-for-two basis and the additional shares were issued on July 1, 1975.

I am pleased to report two key management promotions during the past year. Thomas W. Field was made Executive Vice President of Alpha Beta Company. He has filled increasingly important operating positions since joining the Alpha Beta organization in 1953, and is well prepared to carry this key responsibility. Thomas H. Sunday was appointed a Vice President of American Stores Company after having served Acme Markets, Inc. most effectively as Vice President—Law, including responsibility for public affairs. These two executive moves add strength to our key management ranks.

As our Nation celebrates its 200th Anniversary, we are proud that the origins of American Stores Company go back 85 years. The principle of pleasing the customer, upon which our Company was founded, is still the guiding policy for us today. The men and women who achieved the new record performance are our greatest strength, and to them goes our deep appreciation as we look forward to another year of progress.

Respectfully submitted,



Chairman of the Board
and President

Wilmington, Delaware
June 4, 1976



THE COMPANY . . . growth . . . larger stores . . . improved service

FOOD STORES—new units

For the third successive year, the number of food stores increased. The total in operation at year-end was 787. Of the 30 opened during the year 23 were by Alpha Beta and 7 by Acme. A number of these stores were in excess of 30,000 square feet, a size that gives the customer a much wider selection of merchandise, and the Company a unit that can be managed more efficiently.

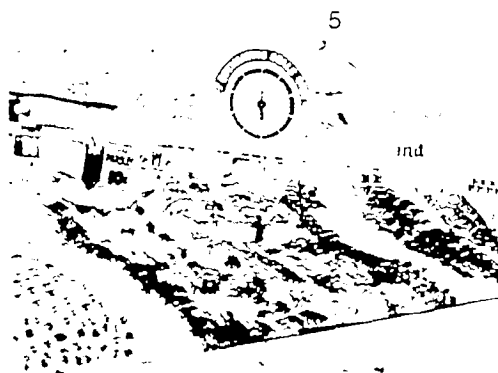
Alpha Beta

Alpha Beta has opened several of a new breed of stores. These markets offer shoppers not only spacious meat and produce departments, but also expanded grocery and general merchandise sections. The stores also house a 3,000 square foot clothing section, and expanded sporting goods, hardware,

automotive, bakeware, and camera and film processing departments.

The first of these in San Jose, California has an in-store pharmacy of 792 square feet which will enable customers to have prescriptions filled while they shop. The second store in Saugus, California has incorporated into the floor plan in place of the pharmacy a new concept for Alpha Beta—a service delicatessen/bakery called "The Hungry Shopper." Here, amid an 1890's decor, customers may purchase fresh baked breads and pastries, salads, meats and gourmet sandwiches all of which may be packed for "take home" or can be enjoyed in the comfortable booths provided within the market.

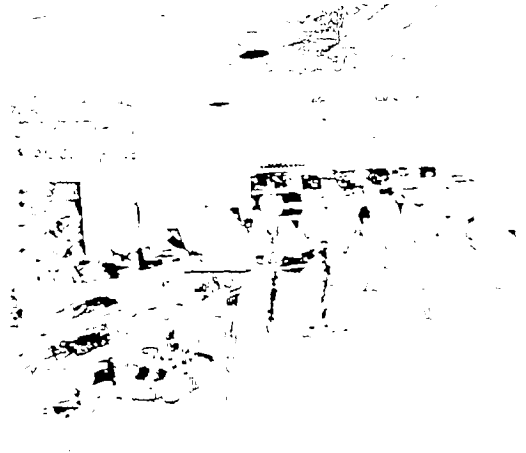
Goodyear, Arizona, and San Diego will be the sites of like stores to open soon.



Some of the new features in the Alpha Beta Saugus store are shown here. LEFT: From the top. The Hungry Shopper, expanded refrigerated product and packaged delicatessen cases and fresh flower section. ABOVE: Entrance to the clothing section. BELOW: A portion of the expanded produce department.



Three scenes from the opening of the new Acme Granite Run store are, ABOVE: Feature cheese display. RIGHT CENTER: Service delicatessen. BELOW: Service bakery section as well as regular bakery section. UPPER AND LOWER RIGHT: The produce department and Thoughts'n Words section of a typical new Acme store.



Acme

Current Acme store plans range between 29,000 and 37,000 square feet. A 39,000 square foot store opened recently in Granite Run Mall, Media, Pa. is the largest in the history of the Company. Unique in appearance, the double entrance, windowless market introduced a new supermarket architecture to Delaware Valley.

A colorful fresh flower section, part of the produce department, is near the entrance to the store. Other attractive areas include a service fresh fish department, a modern service deli, a rear stocked dairy section, modern bake shop, a very large fresh meat section and more frozen food capacity than in any other Acme "Boutique" areas offer greeting cards, books,

candles, international cheeses and other food and non-food specialties.

Three of the newest Acmes opened on the same day recently in the Delaware Valley are all in the 32,000 square foot class. These units feature larger than usual fresh produce department, highlighted by fresh flower and green plant sections, full-service delicatessens, large general merchandise and health and beauty aid departments, nearly 240 linear feet of frozen food display cases, complete dairy, perishable and baked goods sections and numerous specialty and "boutique" areas—in addition to complete lines of groceries and meats.

New to each store area is a unique "Thoughts'n Words" section, which will feature greeting cards, candles, books and related specialties.

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ABOVE: Spacious aisles, wide assortment of merchandise and fast, accurate electronic cash registers are features in all of the new 30,000 square foot food stores—new Alpha Beta store (left) and Acme market. BELOW: Other scenes from new large grocery departments. RIGHT: Attractive produce department and friendly customer service



Store Building Program

During the fiscal year Acme plans to open 15 new stores and 14 are scheduled by Alpha Beta. Most of these will be in the 30,000 square foot category. Also planned are additions to 15 stores at proven locations and a remodeling of 19 units to keep existing stores modern and attractive.

Other Developments

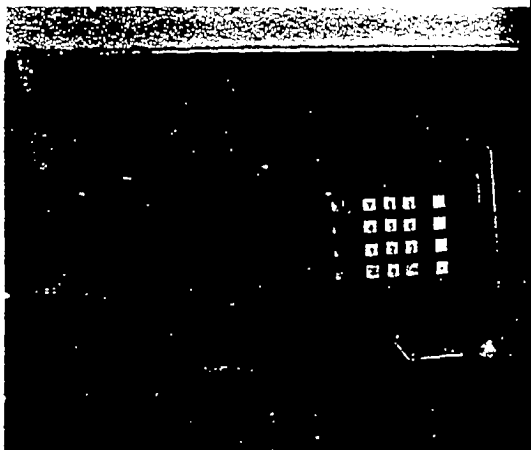


Alpha Beta has installed the CARTRAC rotating warehouse system in the produce distribution center at La Habra, California. The closed loop conveyor system permits order selectors to remain fairly stationary as carloads of produce move automatically to each selector's work area. By reducing the space a person must cover to select a small number of

items, the Company has developed a more productive and efficient way of providing delivery to the stores.

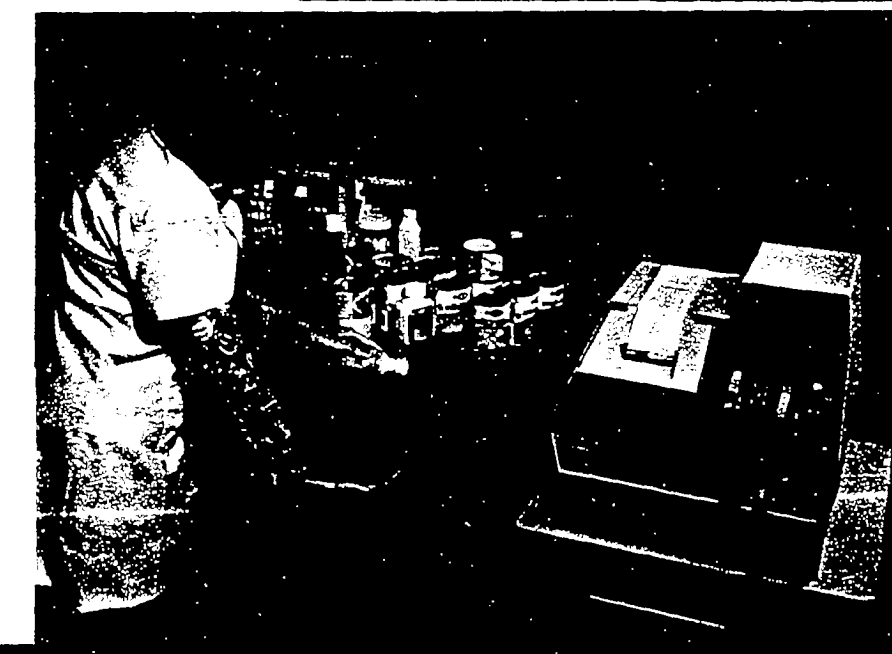

Electronic cash registers are being added every week. Two hundred stores now have this equipment and plans call for installations in an additional 150 stores this year. Scanners can be attached to these registers. After extensive testing and evaluation of a scan system Alpha Beta now has this equipment in operation at a large volume market.

Shortly a new automatic check approval system will be tested. Customers' checks will be authorized and approved by customer-operated terminals that are connected to a bank. This is a first step towards Electronic Funds Transfer—a new technology affecting food retailing.

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ABOVE LEFT: CARTRAC rotating produce warehouse selection system at Alpha Beta. ABOVE CENTER: William R. Deeley, Alpha Beta President and Thomas W. Field, Executive Vice President at La Habra headquarters. ABOVE RIGHT: Customer operated terminal for check approval. LOWER RIGHT: Scanning/electronic cash register equipment demonstration.



DRUG STORES

During the last fiscal year 9 new stores were added by Rea and Derick the East Coast drug subsidiary.

The strength of the prescription departments continues to play an important part in Rea and Derick's growth. Both individual customers and members of an increasing number of third party prescription plans require high quality professional pharmacy service. Rea and Derick has an outstanding reputation as a supplier of such service in its marketing area.

Due to the improving economy, cosmetics and other personal care items are in greater demand. A wide variety of this merchandise is available in the Rea and Derick stores.

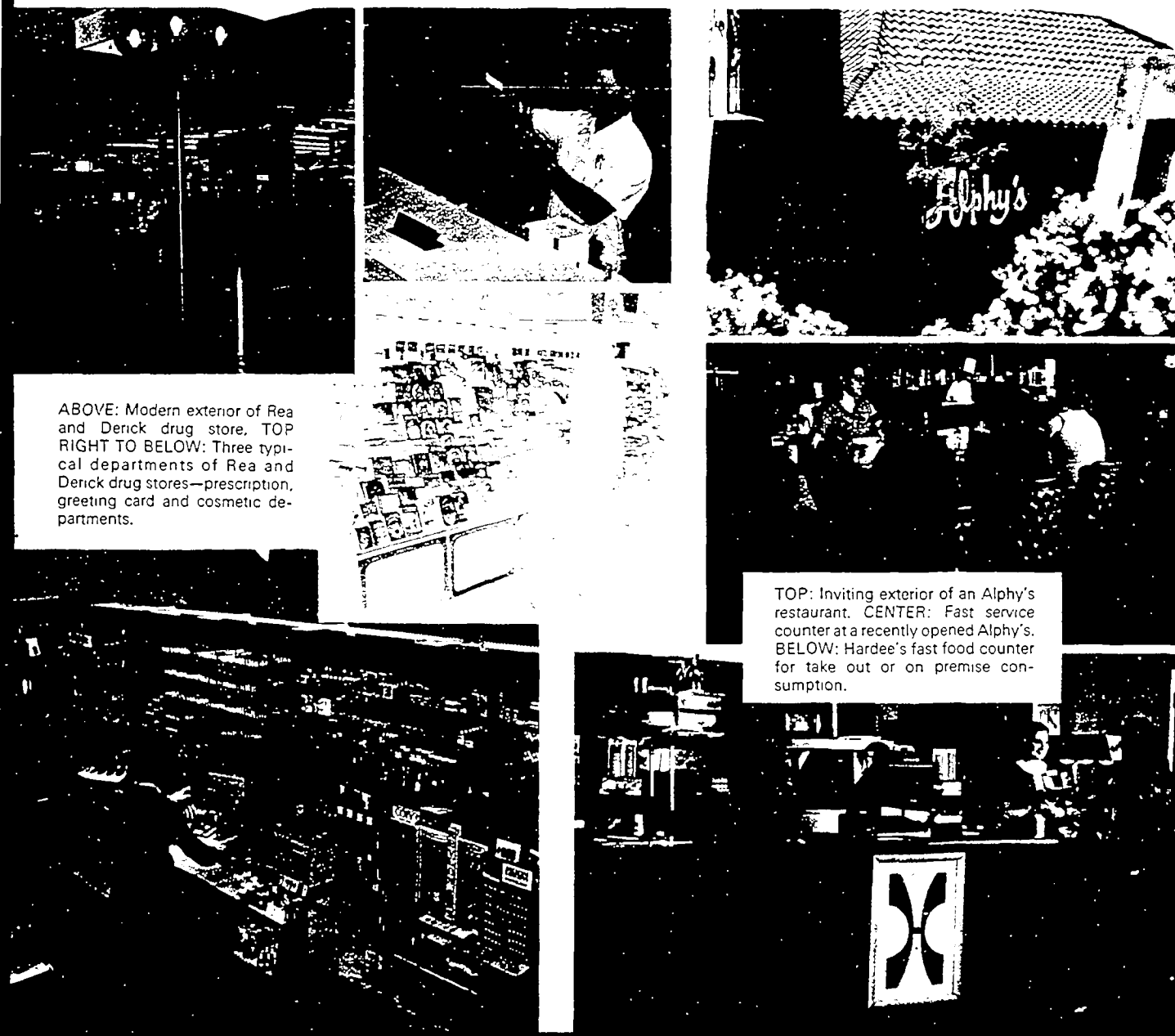
The management team continues to improve operations through further refinements in store ordering systems and inventory controls.

RESTAURANTS

Over the last several years studies have indicated that an increasing number of meals are being eaten away from home. The biggest gainers appear to be limited menu restaurants and fast food operations.

Operating units of the Company have gained experience in each of these types of restaurants through Alphy's on the West Coast and Hardee Northern in the East. Two new restaurants were added to the Alphy's group last year and six are planned for this year. The most recent openings are of the type pictured here and new promotional programs have increased patronage which has been retained because of the fine food and attractive surroundings. The smaller, eastern fast food operation, Hardee Northern has participated in the growth experienced in that category of the restaurant business.

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ABOVE: Modern exterior of Rea and Derick drug store. TOP RIGHT TO BELOW: Three typical departments of Rea and Derick drug stores—prescription, greeting card and cosmetic departments.

TOP: Inviting exterior of an Alphy's restaurant. CENTER: Fast service counter at a recently opened Alphy's. BELOW: Hardee's fast food counter for take out or on premise consumption.

TWO HUNDRED YEARS 1776-1976

The American Stores Company family of companies is proud to have been a part of the American scene for many years. Here are some of the Bicentennial activities in which we have been associated PHILADELPHIA, PA.

In cooperation with the Philadelphia '76 Bicentennial Committee, Acme Markets is providing 34 Bicentennial tourist information kiosks.

Five unmanned kiosks provide a push-button audio visual presentation of historical sites. Racks hold free informational brochures. Passersby can see models of historical buildings such as Independence Hall.

The 29 larger outdoor kiosks have the same audio visual show and serve as manned information booths.

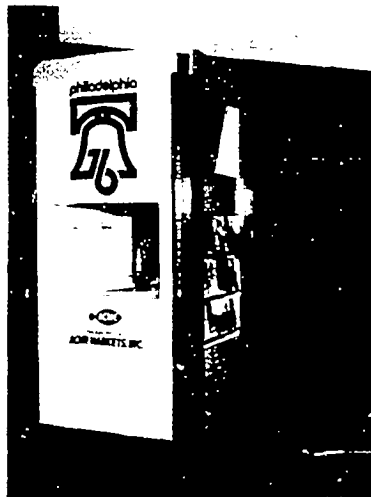
GETTYSBURG, PA.

It was while a guest in the home of David Wills in Gettysburg that President Abraham Lincoln completed the final draft of the famous Gettysburg address. Rea and Derick is participating in a plan to restore the building.

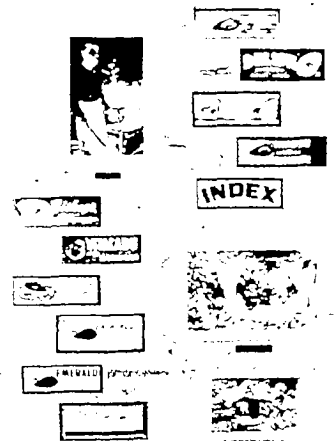
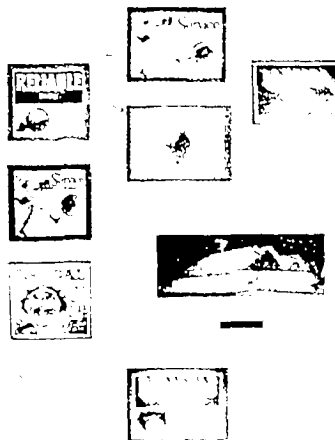
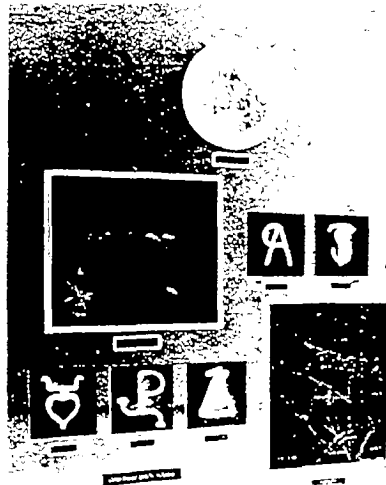
LA HABRA, CAL.

On the Fourth of July, 1975, La Habra, California, the headquarters city of Alpha Beta, initiated monthly Bicentennial programs. Businesses in La Habra were invited to display historical exhibits for community interest. Alpha Beta participated by opening its newly decorated room for school children and community groups. In this room is the finest display of the history of this area.

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LEFT A shopping bag designed by winner of Acme-sponsored contest among students of Philadelphia College of Art. ABOVE One of the Philadelphia Information Kiosks. RIGHT Paul Morelock, Rea & Derick President discusses plans to restore Wills House. BELOW Three of the panels from the La Habra Room display cattle brands, photographs, drawings and citrus and avocado labels to help tell the story of settlement, agriculture and industry in La Habra Valley through two centuries as that community's contribution to the nation's growth.





Edward J. Dwyer John R. Park Williford Gragg
James K. Robinson, Jr Isadore M. Scott



Thomas T. Oyler Hubert C. Perry William R. Deeley

The directors of American Stores Company are shown here at three different Company locations

At the left a group of them listen to an explanation as part of a special demonstration of Scanning/Electronic Cash Register equipment at the Company's headquarters in Wilmington, Delaware. In the second picture some of them observe the operation of the newly installed CARTRAC rotating warehouse system in the Alpha Beta produce distribution center, La Habra, California. In the three pictures on the adjoining page others are shown during a visit to an Acme Baltimore, Maryland store.

AMERICAN STORES COMPANY

Directors

William R. Deeley
President and Chief Executive Officer
Alpha Beta Company

Edward J. Dwyer
Chairman of the Board, ESB Incorporated
(Manufacturer of Batteries)

Williford Gragg
Chairman of the Board and President
United States Fidelity and Guaranty Company
(Insurance and Suretyship)

James V. Jones
Executive Vice President
Armstrong Cork Company
(Manufacturer of Building Products)

Peter F. McGoldrick
President and Chief Executive Officer
Acme Markets, Inc.

Thomas T. Oyler
Executive Vice President of the Company
and American Stores Group Services, Inc.

John R. Park
Chairman of the Board, President and Chief
Executive Officer of the Company,
President and Chief Executive Officer,
American Stores Group Services, Inc.

Hubert C. Perry
Regional Vice President (Retired)
Bank of America (Banking)

James K. Robinson, Jr
Senior Vice President
American Stores Group Services, Inc.

Isadore M. Scott
Chairman of the Board, Tri-Institutional
Facilities, Inc. (Medical Complex)

Orvel Sebring
Partner, Morgan, Lewis & Bockius
(Counselors at Law)

Officers

John R. Park
Chairman of the Board, President
and Chief Executive Officer

Thomas T. Oyler
Executive Vice President

William R. Deeley
Vice President

Peter F. McGoldrick
Vice President

Thomas H. Sunday
Vice President

John W. Edstrom
Secretary and Assistant Treasurer

John G. C. Fuller
Treasurer

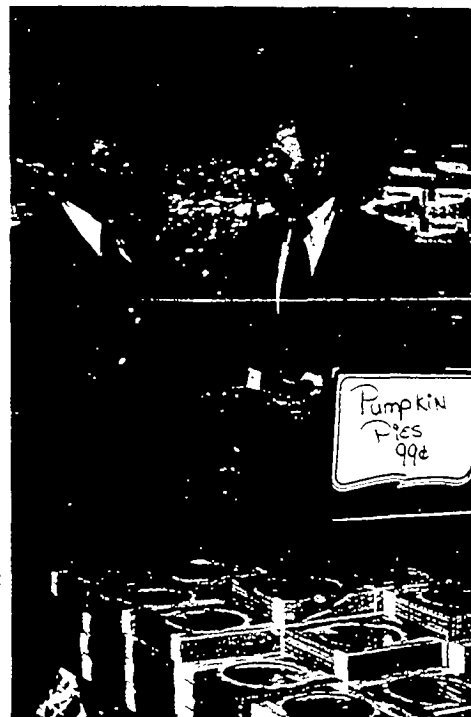
Doris M. Ulrich
Assistant Secretary



James V. Jones



Orvel Sebring



Peter F. McGoldrick

CORPORATE OFFICERS OF THE PRINCIPAL SERVICE SUBSIDIARY AND OPERATING COMPANIES OF AMERICAN STORES COMPANY

AMERICAN STORES GROUP SERVICES, INC.

John R. Park
President and Chief
Executive Officer
Thomas T. Oyler
Executive Vice President

James K. Robinson, Jr.
Senior Vice President
Real Estate
J. Kennedy W. Barclay
Vice President
Engineering

C. Herbert Fry
Vice President and Controller
John G. C. Fuller
Vice President—Finance
and Treasurer
Thomas H. Sunday
Vice President—Law

Rowland G. Weber
Vice President—Insurance
and Benefit Plans
John W. Edstrom
Secretary and Counsel
Jacqueline Paulsen
Assistant Treasurer

ACME MARKETS, INC.

President and Chief
Executive Officer
Vice Presidents

Peter F. McGoldrick
Ralph S. Bromer, Jr.
William A. Dreibelbis
E. Paul Hasler
Donald H. Kohler
Robert W. McCahan
James A. Troler

Vice President and
Secretary
Treasurer
Controller
Assistant Secretaries

Francis J. Raucci
Robert W. Simpson
Richard G. Dunlop
John M. Doerr
John T. Hartigan
Robert B. Jones
Jacqueline Paulsen

Assistant Treasurers

HARDEE NORTHERN INC.

President and Chief
Executive Officer
Controller

A. Balfour Brehman, Jr.
Donald L. McFarland

ALPHA BETA COMPANY

President and Chief
Executive Officer
Executive Vice President
Senior Vice Presidents

Vice Presidents

Secretary
Assistant Secretary

William R. Deeley
Thomas W. Field
Dunward W. Black
Thomas W. King
Frederic S. Cantrell
Joseph E. Davis
Edwin R. Markson
Ruth H. Thomas
Robert O. Kuchenbecker

REA AND DERICK, INCORPORATED

President and Chief
Executive Officer
Vice Presidents

Secretary and Controller
Assistant Secretary

Paul A. Morelock
Clarence J. Everett
John L. Hurst
Lewis M. Swinger
William Fuller
Joseph W. Bloom

FINANCIAL REVIEW

MANAGEMENT ANALYSIS OF OPERATIONS

The following is an analysis of the Company's operations for the fiscal years ending in March 1975 and April 1976. A five year summary on page 13 contains financial and other statistics.

The year just ended was the third consecutive year of record sales and earnings achieved by the Company. Sales and net earnings for fiscal year 1976 (a 53-week year) exceeded those reported during fiscal year 1975 by 17.3% and 65.4%, respectively. Sales for fiscal 1976 exceeded \$3.207 billion, the first time Company sales have surpassed the \$3 billion mark.

The sales realized in fiscal year 1976 represented a continuation of the strong sales performances of the prior two fiscal years which, combined with sound and imaginative merchandising programs and vigorous attention to the control of expenses, enabled the Company to realize the earnings advance for the year. The rate of inflationary price increases moderated considerably during the year and, coupled with strengthened national and regional economic conditions, contributed to the improved performance in fiscal 1976.

Sales in fiscal 1975 increased 17.9% over the sales achieved in fiscal 1974. The 1975 sales improvement reflected the effects of inflation upon prices as well as an increase in unit volume. The 7.0% higher earnings in 1975 over 1974 were achieved despite the LIFO inventory accounting change adopted

during 1975 which reduced net earnings by more than \$8 million. Gains in operating efficiencies, the earlier closing of unprofitable stores and the removal of economic controls in 1974 all helped in achieving the 1975 earnings improvement.

WORKING CAPITAL

Working capital of \$113,906,000 at year-end was sufficient to enable the Company to operate at the higher levels of sales volume. Working capital increased by \$20,975,000 from the previous year, as a result of careful inventory management and the Company's highly effective cash management program. The Company has entered the new year with adequate financial resources to meet the immediate requirements of working capital and capital expenditures.

The ratio of current assets to current liabilities was 1.58 to 1 at April 3, 1976 and 1.52 to 1 at March 29, 1975, providing further evidence of the stronger financial position enjoyed by the Company.

TERM FINANCING

A stand-by revolving credit/term loan was obtained last year to provide added funds that will become available on November 1, 1976, should the need arise. Additionally, the Company is considering seeking long-term financing to help insure the availability of sufficient capital to complete the planned retail store expansion program and associated support facilities.

OPERATING RESULTS BY LINES OF BUSINESS

	Fiscal Year Ended				
	April 3, 1976 53 weeks	March 29, 1975 52 weeks	March 30, 1974 52 weeks	March 31, 1973 52 weeks	April 1, 1972 52 weeks
Sales	(In thousands of dollars)				
Supermarkets	\$3,086,882	2,629,697	2,228,205	1,942,104	1,781,758
Drug and general merchandise stores	98,203	85,696	75,429	68,902	67,093
Other	22,163	19,317	16,688	14,294	12,737
	\$3,207,248	2,734,710	2,320,322	2,025,300	1,861,588
Earnings before income taxes and extraordinary charges					
Supermarkets	\$ 55,445	31,126(a)	30,500	926	17,171
Drug and general merchandise stores	5,190	4,541	3,453	2,869	3,567
Other	1,100	804	625	506	488
	\$ 61,735	36,471	34,578	4,301	21,226

(a) Reflects adoption of LIFO method of valuation for certain inventories

CONSOLIDATED SUMMARY OF EARNINGS

	Fiscal Year Ended				
	April 3, 1976 53 weeks	March 29, 1975 52 weeks(a)	March 30, 1974 52 weeks	March 31, 1973 52 weeks	April 1, 1972 52 weeks
(In thousands except per share amounts)					
Sales	\$3,207,248	2,734,710	2,320,322	2,025,300	1,861,588
Costs and expenses:					
Cost of merchandise sold, including warehousing and transportation expenses	2,557,185	2,197,610	1,866,172	1,628,448	1,469,259
Operating and administrative expenses	556,054	471,016	394,670	366,834	348,503
Depreciation and amortization	28,267	24,639	22,143	21,882	20,130
	3,141,506	2,693,265	2,282,985	2,017,164	1,837,892
Operating profit	65,742	41,445	37,337	8,136	23,696
Other deductions (income):					
Interest expense	6,504	6,167	5,699	5,172	4,075
Non-operating items, net	(2,497)	(1,193)	(2,940)	(1,337)	(1,605)
Earnings before income taxes and extraor- dinary charges	61,735	36,471	34,578	4,301	21,226
Federal and state income taxes	29,770	17,150	16,515	700	8,800
Earnings before extraor- dinary charges	31,965	19,321	18,063	3,601	12,426
Extraordinary charges	—	—	—	(2,585)	—
Net earnings	\$ 31,965	19,321	18,063	1,016	12,426
Average shares outstanding	5,230,407	3,480,273	3,479,858	3,487,320	3,483,002
Per share of common stock based on average number of shares outstanding during fiscal year (b).					
Earnings before extraor- dinary charges	\$ 6.11	3.70	3.46	.68	2.38
Extraordinary charges	—	—	—	(.49)	—
Net earnings	\$ 6.11	3.70	3.46	.19	2.38
Cash dividends	\$ 1.60	1.20	.73	1.00	1.31
Stock dividend	—	—	—	—	2%

(a) Reflects adoption of LIFO method of valuation for certain inventories which reduced net earnings \$8,521,000 or \$1.63 per share.

(b) Per share figures have been adjusted, where appropriate, for the stock dividend paid in fiscal 1972 and the three-for-two stock split effective July 1, 1975

COMMON STOCK PRICE RANGE

Calendar Quarter	High	Low
2nd 1974	21½	17
3rd 1974	18½	15½
4th 1974	19½	15½
1st 1975	25½	16½
2nd 1975	26½	21½
3rd 1975	29½	26
4th 1975	30½	25½
1st 1976	31½	26½

CASH DIVIDENDS

Calendar Quarter	Amount Paid On Common Shares
3rd 1974	26½
4th 1974	26½
1st 1975	33½
2nd 1975	33½
3rd 1975	40
4th 1975	40
1st 1976	40
2nd 1976	40

Common stock price range and cash dividends adjusted for three-for-two stock split effective July 1, 1975

AMERICAN STORES COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

Fiscal years ended April 3, 1976 and March 29, 1975

CURRENT EARNINGS	1976 (53 weeks)	1975 (52 weeks)
Sales	\$3,207,248,000	2,734,710,000
Cost of sales and operating expenses:		
Cost of merchandise sold, including warehousing and transportation expenses	2,557,185,000	2,197,610,000
Wages, rents, advertising, administrative and other operating expenses	556,054,000	471,016,000
Depreciation and amortization	28,267,000	24,639,000
	3,141,506,000	2,693,265,000
Operating profit	65,742,000	41,445,000
Other deductions (income):		
Interest on long-term debt	5,709,000	5,034,000
Other interest expense	795,000	1,133,000
Non-operating items, net (principally interest income)	(2,497,000)	(1,193,000)
	4,007,000	4,974,000
Earnings before income taxes	61,735,000	36,471,000
Federal and state income taxes (note 4)	29,770,000	17,150,000
Net earnings	\$ 31,965,000	19,321,000
Net earnings per share of common stock (note 5)	\$ 6.11	3.70
EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of year	\$ 78,042,000	64,985,000
Net earnings for the year	31,965,000	19,321,000
	110,007,000	84,306,000
Deduct cash dividends—\$1.60 a share in 1976 and \$1.20 a share in 1975 (note 5)	8,373,000	6,264,000
Balance at end of year	\$ 101,634,000	78,042,000
See accompanying notes to financial statements.		

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Fiscal years ended April 3, 1976 and March 29, 1975

SOURCE:	1976 (53 weeks)	1975 (52 weeks)
Net earnings	\$31,965,000	19,321,000
Expenses charged against earnings not involving the current expenditure of funds:		
Depreciation and amortization	28,267,000	24,639,000
Deferred income taxes	2,403,000	1,956,000
Other	127,000	129,000
Total funds provided from operations	62,762,000	46,045,000
Long-term borrowing	11,739,000	9,098,000
Disposals of properties	2,227,000	7,747,000
Proceeds from sales of common stock pursuant to exercise of options	298,000	31,000
Total source of funds	77,026,000	62,921,000
DISPOSITION:		
Expended for property, plant and equipment	40,632,000	59,306,000
Reduction of long-term debt	9,286,000	4,536,000
Cash dividends	8,373,000	6,264,000
Investments and deferred charges (reduction)	(2,548,000)	2,840,000
Miscellaneous, net	308,000	172,000
Total disposition of funds	56,051,000	73,118,000
Increase (decrease) in working capital	\$20,975,000	(10,197,000)
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and marketable securities	\$20,975,000	(13,946,000)
Inventories	16,124,000	4,603,000
Properties to be developed and sold within one year	(2,525,000)	1,116,000
Other current assets	4,825,000	155,000
	39,399,000	(8,072,000)
Increase (decrease) in current liabilities:		
Current instalments of long-term debt	1,023,000	934,000
Accounts payable	(10,776,000)	874,000
Accrued expenses and taxes	28,566,000	(3,222,000)
Construction loan on properties to be sold	(389,000)	3,539,000
	18,424,000	2,125,000
Increase (decrease) in working capital	\$20,975,000	(10,197,000)

See accompanying notes to financial statements.

AMERICAN STORES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

April 3, 1976 and March 29, 1975

ASSETS	1976	1975
Current assets:		
Cash	\$ 9,353,000	3,945,000
Short-term marketable securities, at approximate market	37,046,000	21,479,000
Receivables	10,881,000	10,984,000
Inventories, at lower of cost (last-in, first-out and other methods) or market (note 2)	232,777,000	216,653,000
Prepaid expenses	11,803,000	6,875,000
Properties to be developed and sold within one year	8,285,000	10,810,000
Total current assets	310,145,000	270,746,000
Investments, at cost or less	3,430,000	6,163,000
Property, plant and equipment, at cost (note 3):		
Land	17,471,000	17,202,000
Buildings	75,734,000	73,918,000
Machinery, equipment and fixtures	210,587,000	189,242,000
Leasehold costs and improvements	30,693,000	30,074,000
	334,485,000	310,436,000
Less accumulated depreciation and amortization	135,444,000	121,533,000
Net property, plant and equipment	199,041,000	188,903,000
Deferred charges, etc.	1,089,000	1,031,000
	\$513,705,000	466,843,000
See accompanying notes to financial statements.		

LIABILITIES AND SHAREHOLDERS' EQUITY	1976	1975
Current liabilities:		
Current instalments of long-term debt (note 3)	\$ 4,545,000	3,522,000
Accounts payable	107,710,000	118,486,000
Accrued expenses	56,027,000	45,342,000
Federal and state income taxes (note 4)	21,287,000	3,406,000
Construction loan on properties to be sold	6,670,000	7,059,000
Total current liabilities	196,239,000	177,815,000
Long-term debt, excluding current instalments (note 3)	61,095,000	58,642,000
Deferred income taxes (note 4)	16,748,000	14,345,000
Other liabilities	1,283,000	1,591,000
Shareholders' equity:		
Preferred stock of \$1 par value. Authorized 1,000,000 shares, issued none	—	—
Common stock of \$1 par value. Authorized 10,000,000 shares, issued 5,282,154 shares in 1976 and 3,508,561 shares in 1975 (note 5)	5,282,000	3,509,000
Capital in excess of par value of common stock (note 5)	132,443,000	133,918,000
Earnings retained for use in the business (note 3)	101,634,000	78,042,000
	239,359,000	215,469,000
Less 41,064 shares common treasury stock, in 1976 and 27,376 shares in 1975, at cost (note 5)	1,019,000	1,019,000
Total shareholders' equity	238,340,000	214,450,000
Lease commitments and litigation (notes 6 and 8)		
	\$513,705,000	466,843,000

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Definition of Fiscal Year

The company's fiscal year ends on the Saturday nearest to March 31. The resultant 52-week fiscal year is shorter than a calendar year. Accordingly, the fiscal year is lengthened to 53 weeks periodically when required to reposition the year end near March 31. Fiscal year 1976, a 53-week year, ended April 3, 1976, while fiscal year 1975, a 52-week year, ended March 29, 1975.

Basis of Consolidation

The consolidated financial statements include the accounts of the company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Inventories

Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine the cost of certain categories of grocery inventories, amounting to approximately half of total inventories. Cost of the balance of grocery inventories and all other inventories is computed by either the first-in, first-out (FIFO) or average cost methods.

Depreciation Policy

Depreciation and amortization charged to earnings for financial statement purposes are generally computed using the straight-line method applied to individual property items. For income tax purposes, depreciation is computed by accelerated methods applied to composite groupings of assets.

Maintenance, repairs, renewals and minor betterments are charged to earnings. Where betterments are significant in amount and tend to increase operating efficiency or capacity, they are capitalized and depreciated.

Plant and equipment which has become fully depreciated or fully amortized is charged off against the related accumulated depreciation or amortization.

Pre-opening Costs

The costs of opening new stores or other facilities are charged against earnings in the year in which they are incurred.

Income Taxes

The company provides deferred income taxes or credits where there are timing differences in recording income and expenses for financial reporting and tax purposes. These timing differences relate primarily to accelerated depreciation and reserves not currently tax deductible.

The company reduces its current income tax provision for investment tax credits in the year in which the credits arise.

Pension Costs

Pension costs are actuarially computed and include amortization of prior service cost over periods ranging

to forty years. The company's policy is to fund pension costs accrued.

Net Earnings Per Share

Net earnings per share of common stock are based on the average number of common shares outstanding during the year. Common share equivalents in the form of stock options are excluded from the calculation since they have no material dilutive effect on per share figures.

(2) LIFO Inventories

The dry grocery inventories located in both stores and warehouses of the company's food store subsidiaries are valued at last-in, first-out (LIFO) cost. Such inventories amounted to \$113,175,000 at April 3, 1976 and \$108,196,000 at March 29, 1975. If the first-in, first-out (FIFO) and average cost methods had been used, inventories would have been \$19,711,000 higher at April 3, 1976 and \$17,971,000 higher at March 29, 1975. The change to the LIFO method of accounting for such inventories effective in fiscal year 1975 reduced net earnings in that year by \$8,521,000, or \$1.63 a share.

(3) Indebtedness

A summary of long-term debt at April 3, 1976 and March 29, 1975 is shown below.

	1976	1975
9½% sinking fund debentures due August 1, 1990	\$23,075,000	24,480,000
Notes payable due June 30, 1980	14,500,000	15,000,000
Mortgage loans payable	20,705,000	17,853,000
Other notes payable	522,000	1,440,000
Industrial development revenue bonds due April 1, 1995	3,700,000	—
Purchase agreement	3,138,000	3,391,000
	<u>65,640,000</u>	<u>62,164,000</u>
Current instalments	4,545,000	3,522,000
Long-term	<u>\$61,095,000</u>	<u>58,642,000</u>

Sinking fund payments, sufficient to retire \$1,560,000 principal amount of the 9½% sinking fund debentures, are due annually. The company has repurchased \$365,000 principal amount of debentures which reduce April 3, 1976 figures in the above summary. Such reacquired debentures will be used to satisfy a part of the August 1, 1976 sinking fund requirement.

The notes payable due June 30, 1980 bear interest at prime rate plus ½% (7½% at April 3, 1976), with a maximum average rate of 7½% to maturity. The notes are payable in quarterly instalments of \$500,000 beginning March 31, 1976 with the remainder of \$6,500,000 payable at maturity.

The various mortgage loans are payable in monthly instalments of approximately \$240,000 through

January 25, 1980 and lesser amounts thereafter through September 1, 2005 (applied first to interest and then to principal) and are secured by property, plant and equipment with a book value of \$25,566,000. The loans bear interest at various rates, ranging from 6% to 10% (average 9%¹).

Industrial development revenue bonds (average interest rate 7.4%) were issued to finance part of the cost of a new food processing plant of a subsidiary leased from the municipality in which it is located. The annual payments made by the subsidiary are in amounts sufficient to pay principal and interest expense on the bonds. Repayments of this debt are scheduled to commence on April 1, 1980 (\$500,000) and range in amount from \$200,000 in 1984 to \$1,500,000 in 1995. The cost of the plant and related facilities have been included in property, plant and equipment as if they were owned by the company.

The purchase agreement relates to a distribution center property and requires equal semi-annual payments through 1986 applied first to interest (currently 2%²) and the remainder to principal. In accordance with the terms of the agreement the interest rate is subject to adjustment effective July 1, 1976.

The aggregate amounts of long-term debt maturing in each of the six fiscal years subsequent to April 3, 1976 are: 1977—\$4,545,000; 1978—\$4,958,000; 1979—\$5,332,000; 1980—\$5,179,000; 1981—\$10,281,000 and 1982—\$3,694,000.

There were no short-term borrowings during fiscal year 1976 except the construction loan, but in fiscal 1975, short-term borrowings averaged \$3,485,000 (maximum \$12,000,000), at an average annual interest cost of approximately 11.6%.

Under a revolving credit and term loan agreement established as of December 15, 1975 with two banks, the company has the right to borrow up to \$20,000,000 from November 1, 1976 until October 31, 1978, at which date any amount up to the maximum commitment may be converted into an eight-year term loan repayable in quarterly instalments commencing May 1, 1979 through November 1, 1986. The interest rate will vary in relationship with the prime bank rate.

The various loan agreements impose certain restrictions with respect to maintenance of working capital, payment of dividends and purchase of capital shares. Under the most restrictive covenant, earnings retained for use in the business in the approximate amount of \$37,000,000 at April 3, 1976, were free of restriction.

(4) Income Taxes

Federal and state income taxes charged to earnings are summarized at right:

	1976	1975
Current		
Federal (before investment credits)	\$24,967,000	14,541,000
Investment credits	(2,924,000)	(2,443,000)
State	5,324,000	3,096,000
Deferred		
Federal	2,047,000	1,667,000
State	356,000	289,000
	<u>\$29,770,000</u>	<u>17,150,000</u>

Deferred taxes for both 1976 and 1975 relate principally to the effects of accelerated depreciation.

The effective income tax rate differed from the statutory Federal income tax rate of 48% as shown below:

	1976	1975
Computed "expected" tax rate	48.0%	48.0%
State income taxes, net of		
Federal income tax benefit	4.8	4.8
Investment credits	(4.7)	(6.7)
Other, net	0.1	0.9
Effective income tax rate	<u>48.2%</u>	<u>47.0%</u>

The Federal income tax returns of the company for fiscal years 1969 and 1970 have been examined by the Internal Revenue Service, and all issues have been settled except one relating to imposition of a minor deficiency which the company is contesting. In addition, the Service is examining the returns for fiscal years 1971 and 1972. Management believes that any adjustments arising from the final tax settlements for these years will not have a material effect on the consolidated earnings or consolidated financial position of the company.

(5) Common Stock and Capital in Excess of Par Value of Common Stock

On July 1, 1975, the company issued to shareholders 1,755,783 shares common stock, including 13,688 shares added to treasury stock, in connection with a three-for-two stock split effected in the form of a 50% stock dividend. All per share figures included in the financial statements and notes are based on the increased number of shares of common stock giving effect to the three-for-two stock split.

Changes in common stock and capital in excess of par value of common stock are as follows:

	Common stock Shares	Amount	Capital in excess of par value of common stock
Balance at March 30, 1974	3,507,234	\$3,507,000	133,889,000
Sale of stock under stock option plan	<u>1,327</u>	<u>2,000</u>	<u>29,000</u>
Balance at March 29, 1975	3,508,561	3,509,000	133,918,000
Three-for-two stock split	1,755,783	1,756,000	(1,756,000)
Sale of stock under stock option plan	<u>17,810</u>	<u>17,000</u>	<u>281,000</u>
Balance at April 3, 1976	<u>5,282,154</u>	<u>\$5,282,000</u>	<u>132,443,000</u>

NOTES TO FINANCIAL STATEMENTS (continued)

Under the company's stock option plans approved by the shareholders in 1964 and 1974, there were outstanding at April 3, 1976 options granted to officers and key management employees to purchase 212,460 shares of common stock at prices ranging from \$14.92 to \$25.88, such prices being equal to market value on the respective dates of granting. The options are exercisable on a cumulative basis over a period of five years or less and expire on or before June 19, 1980. The changes in options outstanding during the two years are summarized as follows.

	<u>1976</u>	<u>1975</u>
Shares under option at beginning of year	102,743	87,041
Additions (deductions)		
Options granted	81,600	22,000
Options exercised	(17,810)	(1,327)
Options expired or canceled	(4,338)	(4,971)
Options increased by reason of stock split	50,265	—
Shares under option at end of year	<u>212,460</u>	<u>102,743</u>
Average option price per share	\$20.25	\$16.56

Under the 1974 option plan at April 3, 1976, an additional 112,400 shares common stock were reserved for future option grants.

(6) Lease Commitments

At April 3, 1976, the company and subsidiaries were lessees under leases covering retail locations and certain distribution center properties. The company conducts the major part of its operations from leased premises and the initial lease terms generally range from 15 to 20 years. Most of the leases contain renewal options which give the company the right to extend the lease for varying additional periods, often at reduced rentals. The company has classified its lease obligations as either non-capitalized financing leases or other leases in accordance with the requirements of the Securities and Exchange Commission. Rental expense for fiscal years 1976 and 1975 was as follows.

	<u>1976</u>	<u>1975</u>
Financing leases		
Minimum rentals	\$21,671,000	18,477,000
Rentals based on sales	1,612,000	1,155,000
Sublease rentals	(707,000)	(739,000)
	<u>22,576,000</u>	<u>18,893,000</u>
Other leases		
Minimum rentals	15,043,000	14,848,000
Rentals based on sales	1,248,000	956,000
Sublease rentals	(1,006,000)	(987,000)
	<u>15,285,000</u>	<u>14,817,000</u>
	<u>\$37,861,000</u>	<u>\$33,710,000</u>

Aggregate future minimum commitments (excluding taxes, insurance and maintenance expenses

where payable by the company) are approximately as follows for the fiscal years indicated:

Years	Net, all leases	Financing leases (000's omitted)	Other leases	Sublease rental income Financing leases	Other leases
1977	\$ 34,102	21,920	13,804	(666)	(956)
1978	31,726	21,571	11,521	(620)	(746)
1979	29,873	21,280	9,675	(562)	(520)
1980	27,614	20,789	7,689	(483)	(381)
1981	25,757	20,342	6,030	(445)	(170)
1982-1986	103,527	90,271	14,860	(1,308)	(296)
1987-1991	74,790	70,750	4,762	(599)	(123)
1992-1996	32,960	32,245	925	(210)	—
Thereafter	988	990	—	(2)	—
	<u>\$361,337</u>	<u>300,158</u>	<u>69,266</u>	<u>(4,895)</u>	<u>(3,192)</u>

The present value of the minimum lease commitments for financing leases was \$171,000,000 at April 3, 1976 and \$157,000,000 at March 29, 1975 based on calculations using interest rates ranging from 4¼% to 10¼%. The weighted average interest rates were 7.5% for fiscal 1976 and 7.3% for 1975. If all of the above noncapitalized financing leases were capitalized, the related property rights amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability, net earnings for fiscal years 1976 and 1975 would have been reduced \$1,556,000 and \$1,243,000, respectively. The amounts of amortization and interest cost included in the calculations were the following.

	<u>1976</u>	<u>1975</u>
Amortization	\$11,885,000	10,275,000
Interest cost	<u>12,928,000</u>	<u>10,669,000</u>

(7) Pension Plans

Substantially all employees of the company and its subsidiaries are covered by pension plans funded currently by payments to plan trustees or insurers. Employees who are members of bargaining units are covered by union-negotiated pension plans to which the company makes specified contributions based on hours worked. For other eligible employees, the company provides pension benefits through group annuity contracts with a life insurance company.

Effective January 1, 1976, the company amended the principal plans which are funded through group annuity contracts to comply with the provisions of the Employee Retirement Income Security Act of 1974. These changes increased fiscal year 1976 pension cost \$175,000 and are expected to cost about \$625,000 annually thereafter. In addition, the amount of vested benefits and past service cost were increased. At the January 1, 1976 actuarial valuation date, the computed value of vested benefits exceeded the applicable plan assets by \$8,650,000. There was no such excess at the previous valuation date.

Unfunded past service cost amounted to approximately \$14,900,000 and \$9,350,000 at the 1976 and 1975 valuation dates, respectively.

The total charge to earnings for all plans for the year ended April 3, 1976 was approximately \$24,115,000 compared with \$19,409,000 for the preceding fiscal year.

(8) Litigation

The company has been named a defendant in five civil actions brought by certain alleged producers and feeders of cattle under the Federal anti-trust laws in Federal district courts in the states of Iowa, Nevada, Texas, Utah and California.

The actions claim that the defendants, a number of retail food companies, the National Association of Food Chains, and the National Provisioner, Incorporated,

have engaged in conduct and agreements to fix prices paid by retail chains to meat packers for beef at an artificially low level, to charge high prices for retail sales of beef to consumers, to allocate territories among retail chains, to eliminate price competition for beef, and to boycott packers, feed lots, and producers in order to obtain lower prices for beef. Plaintiffs in each suit seek treble damages in an unspecified amount (except in the California action in which the plaintiff claims \$2,000,000 in single damages), as well as injunctive relief restraining the alleged unlawful practices, plus costs and attorneys' fees.

Management believes that no basis exists for the allegations made against the company in these complaints.

PEAT, MARWICK, MITCHELL & Co.
CERTIFIED PUBLIC ACCOUNTANTS
1500 WALNUT STREET
PHILADELPHIA, PA 19102

The Shareholders and Board of Directors
American Stores Company

We have examined the consolidated balance sheets of American Stores Company and subsidiaries as of April 3, 1976 and March 29, 1975, and the related consolidated statements of earnings and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of American Stores Company and subsidiaries at April 3, 1976 and March 29, 1975, and the results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

May 18, 1976

Peat, Marwick, Mitchell & Co.

A copy of the Company's 1976 report to the Securities and Exchange Commission, Form 10-K, is available to shareholders on request by writing: John W. Edstrom, Secretary, American Stores Company, One Rollins Plaza, Wilmington, Delaware 19803.

EXECUTIVE OFFICES

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REGISTRAR

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New York, New York

STOCK EXCHANGES

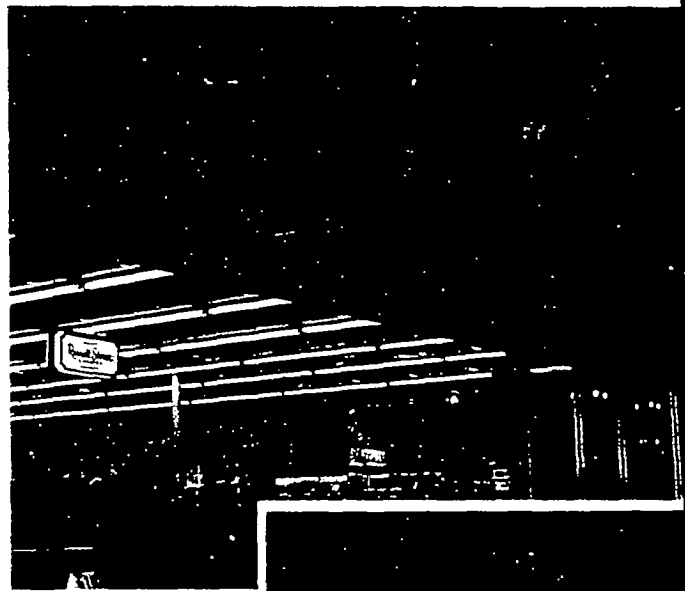
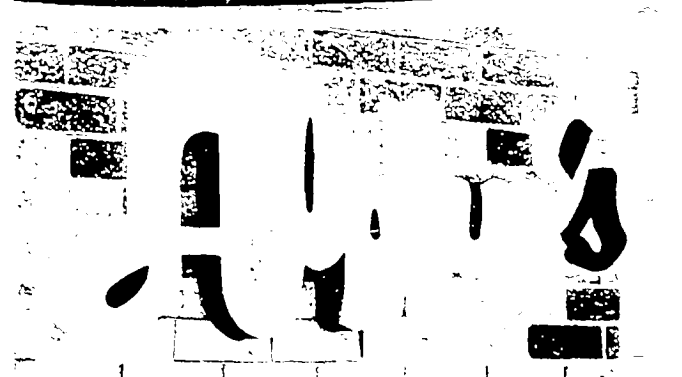
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SHAREHOLDER COMMUNICATIONS

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